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AICPA *Washington Report*

December 14, 1981, Volume X, Issue 42

Agriculture	Proposal would require audit by CPA for grain warehouses.	p.1
GAO	Report finds State controls ineffective in accounting for use of Federal funds.	p.1
ICC	Indexing of operating revenues proposed for motor carriers.	p.1
SEC	Interpretation of rules on management remuneration disclosure published.	p.1
	SEC and CFTC resolve jurisdiction over options on financial instruments.	p.2
SBA	New proposal on size standards expected.	p.2
Treasury	Effective date of debt/equity regulations postponed again.	p.2
	One year delay in LIFO recapture passed by House committee.	p.2
White House	Inspectors General save \$2 billion in fraud and waste.	p.3
Special	Banking committee plans no action for S&Ls until February 1982.	p.3

AGRICULTURE, DEPARTMENT OF

Grain warehousemen would be required to provide the Secretary with an annual financial statement that has been audited by a CPA in accordance with GAAS under a recent proposal from Agriculture's Grain Elevator Task Force (see the 12/7/81 Fed. Reg., pp. 59930-31). The task force was established to review circumstances leading to warehouse bankruptcies. By studying the warehouse laws and regulations, the task force has recommended a number of changes governing warehouse standards. Comments are requested by 12/31/81. For additional information contact Orval Kerchner at 202/447-3616.

GENERAL ACCOUNTING OFFICE

State financial management and internal controls do not provide proper accountability and are largely ineffective in protecting against fraud, waste and abuse in the use of federal funds, according to a recent GAO letter to Sen. David Durenberger (R-MN), Chairman of the Senate Governmental Affairs Subcommittee on Intergovernmental Relations. A GAO review of title XX of the social services grant program was performed at the request of Sen. Durenberger in an effort to improve accountability and audit oversight over block grants funds to the states. The GAO performed detailed financial and compliance reviews on approximately 20 percent of the purchase-of-service contracts, as well as reviews on 51 audit reports and corresponding work-papers. The review disclosed that some states failed to audit or otherwise oversee the financial activities of all or most of their title XX contractors. Of the 51 audits reviewed, 63 percent were judged deficient when compared to GAO "yellow book" (Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities and Functions") standards. Of the 35 state audits reviewed, 28 failed to review the contractors' internal controls, 21 failed to address federal and/or state compliance issues, and 24 had inadequate documentation to support the reported findings. The GAO recommended that any proposed block grant legislation contain provisions to: expand the audit and oversight provisions to include all block grants under the Omnibus Budget Reconciliation Act; make GAO's yellow book standards for financial and compliance audits mandatory for state, local and independent public accountant audits; include sub-recipients under the audit requirements; and require the establishment of an audit quality review process at the federal level to ensure that the audit organizations, reports and the audit work itself meet GAO yellow book standards.

INTERSTATE COMMERCE COMMISSION

A methodology for indexing annual operating revenues of motor carriers of property so inflation will not affect the classification process is the subject of proposed rulemaking by the Commission (see the 12/8/81 Fed. Reg., pp. 60035-36). Indexing would provide assurances that carriers are moved to a higher accounting and reporting class because of business expansion and not from inflation. The indexing medium would be the Producers Price Index (PPI) and the proposed base year is 1980. The proposed effective date is 1/1/82. Comments are requested by 1/22/82. For additional information contact Bryan Brown at 202/275-7448.

SECURITIES AND EXCHANGE COMMISSION

Interpretation of Rules Relating to Disclosure of Management Remuneration (Regulation S-K) have been published by the SEC in the form of staff interpretations (see the 12/10/81 Fed. Reg., pp. 60421-28). The release sets forth the views of the Division of Corporate Finance on various issues which have arisen since the adoption of the most recent amendments to Item 4, Regulation S-K, in November, 1980. The release also reiterates prior staff interpretations with continuing validity, in order to provide a more convenient reference source to those who must comply with the requirements of Item 4. For additional information contact Ann Glickman at 202/272-2573.

SECURITIES AND EXCHANGE COMMISSION (Cont.)

Resolution of jurisdiction over the expanding field of options on financial instruments was recently announced by the Securities and Exchange Commission and the Commodity Futures Trading Commission. In a joint statement, 12/7/81, SEC Chairman John S.R. Shad and CFTC Chairman Philip McB. Johnson said agreement had been reached that the SEC should retain regulatory jurisdiction over options on U.S. government and other exempt securities, certificates of deposit and securities indices, as well as foreign currencies traded on securities exchanges. The CFTC will regulate options on futures contracts and foreign currencies traded on commodity exchanges. The agreement represents a compromise of both agencies' prior jurisdictional claims. The two agency heads also agreed that the SEC should have authority over the registration and reporting of commodity pools. Both chairmen indicated they would seek legislative amendments in line with their agreement from their respective Congressional oversight committees.

SMALL BUSINESS ADMINISTRATION

Public accounting firms and virtually all other industry and professional groups, classified into 700 categories, will be affected by new SBA "size standards" that are expected to be issued in a few weeks. The new standards will determine the eligibility of firms to qualify as a "small business" in order to participate in certain specified federal programs earmarked for small business. The anticipated SBA action will likely take the form of a proposed rulemaking, providing an opportunity for affected firms to comment directly to the SBA prior to the adoption of a final rule. Substantial activity in this area occurred primarily in 1980, with SBA proposals soon followed by a series of regional meetings throughout the nation. An earlier proposal by the SBA stated that 25 employees, whether full-time, part-time or clerical would be the limit for "accounting, auditing, and bookkeeping" firms to remain classified as "small" for SBA purposes. Indications are that a new standard, allowing up to 100 employees, will be proposed by the SBA.

In a related matter, the Senate passed a bill, S. 881, the "Small Business Innovation Act of 1981" which requires that the federal government set-aside one percent of all federal funds for basic research, specifically for small research and development firms. This bill, which passed 90-0 on 12/8/81, also strongly recommends to the President that the next appointee to the Federal Reserve Board be filled with a representative of small business or agriculture.

TREASURY, DEPARTMENT OF

The effective date of regulations relating to whether certain interests in corporations are treated as stock or indebtedness has been changed from 1/1/82 to 7/1/82. Under the recent change, the regulations under IRC sec. 385 will apply to certain interests in corporations issued after 6/30/82. In the interim, proposed revisions to the 12/30/81 regulations will be published for public comment. Those proposals are expected in the Federal Register shortly.

A one year delay in the implementation of a requirement that businesses using the last-in, first-out--LIFO-- method of inventory accounting repay the taxes they saved using LIFO when liquidating their business inventory was approved at a 12/9/81 House Ways and Means Committee mark-up on HR 4717. Over objections from the Treasury Department, the Committee voted 29-6 to delay the LIFO recapture rule until 1/1/83. The Committee also voted to extend the rules for carryback and carryforward of net operating losses for depository institutions to Fannie Mae, and to speed the filing of information returns on safe-harbor leasing transactions under the 1981 tax act. Both these provisions were added to HR 4717, which will be sent to the House floor under suspension of the rules.

WHITE HOUSE

Two billion dollars have been saved by the Inspectors General in their efforts to combat fraud and waste in the federal government, according to the second consolidated report on waste, fraud and mismanagement by the President's Council on Integrity and Efficiency. The semi-annual report released by the Council shows a 46 percent increase in recoveries, a 59 percent increase in indictments, and a 28 percent increase in convictions over the past six months. From the April-September 1981 period, the Council has adopted several interagency projects aimed at generating savings. These projects include: federal employees repaying money owed to agencies; adequate controls on acquisition and accountability of government property and medical provider fraud. Further, standing committees have been established, such as: investigations/law enforcement; performance/evaluation and administrative remedies and incentives. Additional efforts have been undertaken to eliminate waste and mismanagement including: reduction in films, pamphlets, periodicals; debt collection; travel management and internal controls. The Council was established in March 1981 and its membership includes inspectors general from all major departments and agencies, as well as representatives from Defense, Justice, Treasury, FBI, OFPP and OMB.

SPECIAL: BANKING COMMITTEE PLANS NO ADDITIONAL ACTION FOR S&LS UNTIL FEBRUARY, 1982

Legislation to address the problems of the nation's savings and loan industry will not be considered by the Senate Banking Committee until February, 1982, at the earliest, according to recent contact with the Committee. Banking Committee Chairman Jake Garn (R-UT) is reported to believe that adoption of so-called "emergency" legislation is not warranted, since representatives of state banking regulators have assured the Committee that their current regulatory powers, coupled with those of the federal regulatory agencies, are sufficient at this time. Sen. Garn is on record as favoring his bill, S. 1720, a more comprehensive approach to the problems facing the entire financial services industry, not just the S&LS. The Congress could adjourn as early as 12/16/81, and is not scheduled to return until 1/25/82. Staff of the Banking Committee has also stated that hearings by the Senate Securities Subcommittee, Committee on Banking, are tentatively scheduled for early February and that additional hearings on S&L legislation could conceivably wait until after the Securities Subcommittee hearings.

For additional information, please contact Jim Kovakas, Gina Rosasco, Nick Nichols or Kathee Baker at 202/872-8190.

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